

# Fiscal Note

*Fiscal Services Division*



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**HF 2473** – Business Development Financial Assistance Program (LSB 5347HZ)  
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Fiscal Note Version – New  
Requested by Representative Josh Byrnes

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## **Description**

**House File 2473** adds a direct financial assistance component to the High Quality Jobs Program and makes other changes related to the sunset of the Economic Development Fund (formerly the Grow Iowa Values Fund). The Bill also repeals the Film, Television, and Video Project Promotion tax credit.

## **Background**

**House File 648** (FY 2012 Infrastructure Appropriations Act) repealed the Economic Development Fund effective June 30, 2012, and required the Iowa Economic Development Authority (EDA) to propose to the General Assembly a new business development financial assistance program and any changes in law necessary to implement the repeal of the subchapter. The EDA submitted **HSB 591** to fulfill this requirement.

The historical expenditures and current year budget estimate for administration of the Economic Development Fund is outlined in the table below.

	<u>Actual FY 2010</u>	<u>Actual FY 2011</u>	<u>Estimated FY 2012</u>
Expenditures	\$ 1,552,025	\$ 1,319,706	\$ 1,617,676
FTE Positions	15.1	13.3	17.3

Additionally, the EDA has expended money associated with National Marketing (\$2.3 million), Laborshed Studies (\$145,000), and Information Technology/Technical Assistance (\$350,000).

## **Assumptions**

The following assumptions were used in the preparation of this memo:

- The amount appropriated for this Program will vary each fiscal year.
- The costs outlined above will remain constant.
- Depending on the amount appropriated, the EDA will adjust its budget accordingly.
- Withholding Tax Payment Diversion is capped at \$10.0 million.
- In FY 2012, the EDA signed agreements for 566 created and retained jobs, and awarded projects to date that would create or retain a total of 2,341 jobs in the High Quality Jobs Program and the Enterprise Zone Program. These jobs have an average salary of \$42,000. Additionally, the EDA has 4 projects that have a total of 353 created and retained jobs still awaiting contract. These jobs have an average salary of \$34,000.
- The EDA will annually contract for 4,500 created or retained jobs. These jobs will have an average salary of \$33,000.
- All the jobs outlined will be created or retained in 1/3 increments over three years, with a total withholding timeline of five years.

- The EDA will reach the aggregate tax credit cap in Iowa Code section [15.119](#) with or without the Film, Television, and Video Project Promotion tax credit.

### **Fiscal Impact**

The Department of Revenue calculates that the impact of the Bill will be a withholding tax diversion of General Fund revenue of \$1.7 million in FY 2013, \$2.6 million in FY 2014, \$3.7 million in FY 2015, and \$4.8 million in FY 2016. The diverted funds will be deposited to a newly created fund and will be used for project completion assistance, incentives, and other assistance administered by the EDA. However, these estimates are based on the awards made in FY 2010, when the High Quality Jobs Program only included tax credits for awards, and not direct funding capabilities added in this Bill. Additionally, there was no accounting for jobs being created or retained incrementally.

[House File 2473](#) will have a maximum annual General Fund impact of diverting \$10.0 million in withholding tax revenue to the EDA. Using the assumptions outlined above, the impact will be a diversion of General Fund revenue in the following manner:

Estimated Diversion to IEDA (in millions)	
FY 2013	\$ 2.4
FY 2014	5.9
FY 2015 & beyond	10.0

These diversions will be impacted on the rate that a company creates or retains its obligated jobs, and if a job is initially created but later lost, the diverted withholdings would be impacted.

The EDA will continue to have the same administration costs of running a direct funding financial assistance program as outlined above.

Since the Film, Television, and Video Project Promotion tax credits are currently suspended, no fiscal impact is anticipated.

### **Sources**

Department of Revenue  
Iowa Economic Development Authority  
LSA Analysis & Calculations

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/s/ Holly M. Lyons

April 30, 2012

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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